U.S. Market & Economic Commentary

The Markets

Financial markets had a stronger-than-expected performance in January despite economic uncertainty. Both equities and bonds gained across the board, as investors weighed the economic outlook and the timing of future Fed rate cuts.

Market Indices	January 2025	Year-to-Date
Dow Jones Industrial Average	4.7%	4.7%
S&P 500 Index	2.7%	2.7%
NASDAQ Composite	1.6%	1.6%
MSCI World Index	3.5%	3.5%
Bloomberg US Aggregate Bond Index	0.5%	0.5%
Bloomberg Global Aggregate Bond Index	0.4%	0.4%

The US economy began 2025 on a softer note, with economic data reflecting mixed signals across key sectors. Preliminary GDP growth remained at 2.3% in Q4 2024, indicating steady but moderated expansion. However, consumer activity showed some signs of restraint, as personal spending declined by 0.2% in January, a likely normalization from the strong holiday-driven growth seen in December. Meanwhile, the ISM Purchasing Managers' Index rose to 50.9, suggesting an expansion in factory activity for the first time since mid-2024, signaling potential stabilization in the sector.

The labor market showed signs of both cooling and resilience, with nonfarm payrolls increasing by 143k in January, a notable slowdown from the seasonally influenced gain in December. The unemployment rate declined slightly to 4.0%, suggesting some resilience, while wage growth held steady at 4.1% YoY, providing continued support for workers amid inflation concerns. Job openings rebounded by 3.1% to 7.74 million, reflecting ongoing labor market strength despite signs of a broader slowdown.

Inflation remained a key focus, as the Consumer Price Index (CPI) rose 0.5% in January, pushing the annual rate up to 3.0%, compared to 2.9% in December. The Core PCE Price Index, the Fed's preferred measure, ticked down to 2.6% YoY from 2.9% in the prior month, reflecting underlying price stability. Despite the modest increase in headline inflation, markets continue to anticipate further policy easing from the Federal Reserve. The Federal Funds Rate remained at 4.50% in January, as policymakers assessed the balance between growth, employment, and inflation risks.

Housing market activity cooled at the start of the year, with housing starts falling 10.9% MoM, reversing December's strength. Existing home sales declined 4.9%, while new home sales dropped 10.5%, reflecting affordability concerns amid an uptick in mortgage rates to 7.02%. However, building permits remained relatively stable, suggesting long-term housing demand may remain unchanged.

Looking ahead, the US economy enters 2025 with moderate but uneven growth, as consumer resilience is tested by higher interest rates and lingering inflation pressures. The Federal Reserve remains a key driver of market sentiment, with investors closely watching inflation trends and labor market developments for clues on the timing of further rate adjustments.